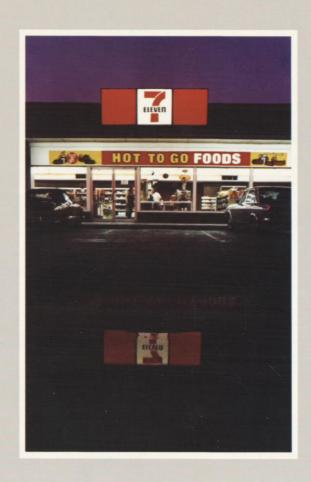
#### **SITHE SOUTHLAND CORPORATION**

# ANNUAL REPORT



# THE SOUTHLAND CORPORATION

...does \$1.4 billion of business in 41 states, the District of Columbia, three provinces of Canada, and Mexico...has 50% interest in two United Kingdom retail food operations with 1,096 outlets...has granted area license for **7-ELEVEN** operation in Japan.

... is the largest operator and franchisor of convenience stores with more than 4,800 **7-ELEVEN** outlets... sales reached almost \$1.1 billion in 1973 and represented 79% of corporate revenues... 52% of outlets now receiving half of merchandise from its own unique convenience store distribution system.

... operates 240 other food, sandwich, and candy shops and stores.

... is a major processor of milk, ice cream, and related dairy products distributed under 14 respected regional brand names.

... operates a truck-leasing business and manufactures and distributes specialty chemicals, ice, fine chocolates, and other candies.

#### CONTENTS

#### MANAGEMENT REPORT Letter to Shareholders ..... 2 Store Operations . . . . . . . . . . . . . . . . . 4 FINANCIAL REPORT Statement of Consolidated Earnings . . . . . . 7 Consolidated Balance Sheet ..... 8 Statement of Consolidated Shareholders' Equity . . . . . . . . . . . . . . . . . 10 Statement of Consolidated Changes

#### **COMPARATIVE HIGHLIGHTS**

CLEVELAND PUBLIC LIBRARY BUSINESS INF. BUR. CORPORATION FILE

#### YEAR ENDED DECEMBER 31

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FOR THE YEAR	1973	1972	% Change
Total Revenues	\$1,396,491,249	\$1,228,350,265	13.7
Net Earnings	23,328,422	20,365,987	14.5
Primary Earnings Per Share*	1.42	1.28	10.9
Earnings Per Share—Assuming full dilution .	1.36	1.21	12.4
Cash Dividends	4,095,714	3,491,311	17.3
AT YEAR-END			
Working Capital	95,972,572	107,911,601	(11.1)
Current Ratio	1.96:1	2.14:1	
Long-Term Debt	107,495,757	82,042,893	31.0
Shareholders' Equity	213,444,572	194,202,227	9.9
Book Value Per Share*	13.02	12.21	6.6
Annual Dividend Rate Per Share	.30	.24	25.0
Average Shares Outstanding	16,395,576	15,909,634	3.1
Number of Shareholders	9,476	9,418	.6
Number of Employees	26,800	24,100	11.2

<sup>\*</sup>Based on average number of shares outstanding during the period after adjusting for all stock dividends and splits.

#### Notes:

- (1) Includes The Southland
  Corporation and subsidiaries. Data for
  businesses acquired under the poolings
  of interest concept have been
  included for years prior to their
  acquisition by The Southland
  Corporation.
- (2) Net earnings before extraordinary

- items of \$520,000 (addition) in 1967, \$380,914 (addition) in 1969, and \$496,836 (addition) in 1971.
- (3) Calculations of per share information are based upon the average number of shares outstanding during the respective years after giving effect to subsequent stock dividends, stock splits, and shares issued in exchange for businesses acquired under the poolings of interest concept.

e Tautha								_		10 Year
1968		1969	_	1970	1	971	197	2	1973	Compound Growth
665,764	\$	874,220	\$	986,580	\$ 1,085,		\$ 1,228,35	60	\$ 1,396,491	19.94%
18.14%		31.31%	100	12.85%		0.99%	13.2		13.69%	
9,862		12,436		14,895	17,	300	20,36		23,328	24.08%
28.16%	1	26.10%		19.77%		6.15%	17.7		14.55%	
1.48%		1.42%		1.51%	1	.59%	1.6	66%	1.67%	
23.69%		15.32%		14.96%	15	5.27%	14.8	85%	12.01%	
56,906		76,487		79,856	83,	689	107,91	2	95,973	
96,607		132,494		143,610	155,	688	165,27	0	219,262	
7,343		11,616		15,009	16,	247	17,86	52	21,543	
63,887		97,913		97,299	95,	192	82,04	13	107,496	
81,170		99,546		113,285	137,		194,20	)2	213,445	27.97%
.80		.91		1.08	1	.23	1.2	28	1.42	18.50%
.73	10	.82		.96		.12	1.2	21	1.36	17.99%
.13	1	.13		.14		.17		22	.25	
6.62		7.30	W.	8.19	9	9.73	12.2	21	13.02	22.09%
3%		3%		3%		3%		3%	3%	
3-for-2					3-f	or-2				
2,260,393		3,627,429		3,838,108	14,089,		15,909,63		16,395,576	
4,375,265	1	6,749,010	1	7,164,186	17,150,		17,532,85		17,993,643	
7,457		8,079		8,249		866	9,41		9,476	
16,900		19,500		18,900	21,	500	24,10		26,800	

#### TEN YEARS OF GROWTH

The Southland Corporation and Subsidiaries

	1964	1965	1966	1967
Operations				
Total revenues		\$ 365,166	\$ 480,571	\$ 563,540
Increase for the year	32.88%	21.23%	31.60%	17.26%
Net earnings (Note 2)	3,967	5,237	6,105	7,695
Increase for the year	47.14%	32.01%	16.57%	26.04%
Per revenue dollar	1.32%	1.43%	1.27%	1.37%
shareholders' equity	21.88%	23.11%	21.14%	22.68%
Assets Employed				
Working capital Property, plant, and	28,472	33,277	41,588	41,537
equipment (net)	25,107	27,390	47,620	68,481
Depreciation provision	2,230	2,225	2,763	5,033
Capitalization				
Long-term debt	31,451	30,976	52,527	63,512
Shareholders' equity	22,659	28,880	33,931	41,630
Per Share Data (Note 3)		74 T 7 7 19		
Primary earnings	.38	.49	.56	.70
Fully diluted earnings	.38	.48	.53	.65
Cash dividends	.10	.10	.12	.12
Shareholders' equity	2.18	2.71	3.13	3.81
Other Data				
Stock dividends	-	2%	3%	3%
Stock splits				
Average primary shares				
outstanding	10,415,693	10,670,285	10,843,766	10,924,943
Average diluted shares	10,415,693	11,580,107	12,080,437	12,385,590
Number of shareholders	980	1,228	2,111	2,816
Number of employees	9,600	11,300	12,800	13,900
(Dollars in thousands except per share figures)				

#### TO OUR SHAREHOLDERS:

Last year was the most successful and exciting in your Company's 46-

year history.

It was successful because the year's operating results again were all-time highs, with an increase in net earnings of 14.5% on a 13.7% gain in revenues. Our trust in the competitive abilities of the "Southland family" was rewarded with record revenues of \$1.396 billion and net earnings of

\$23.3 million.

It was exciting because Southland's young, growth-oriented organization had to surmount numerous and varied challenges, many of which were unique in our experience. We were confronted with economic uncertainty, unprecedented inflation, rapidly changing economic stabilization programs - including limits on retail prices and profit margins - and higher costs, including government-imposed increases. Our management team overcame these and other aggravating obstacles while minimizing the effect of localized and temporary shortages.

Gasoline, which represented less than 2% of corporate revenues in 1973, was the most publicized shortage of the year. Nevertheless, sales and profits of our self-service gas installations were up substantially, and we anticipate another gain in 1974.

The shortage of fuel supplies had virtually no disruptive effect on Southland's dairies, distribution centers, and other operations. Due to priority allocations, which include the food industry, there should be minimal impact on our operations in 1974. We are dedicated to the energy conservation objectives about which we wrote you in January, and numerous programs are being implemented with excellent results but without any significant change in the services provided to our customers.

7-Eleven store sales alone reached almost \$1.1 billion, increasing 16.2% over 1972. Average sales per store again showed excellent gains through improved merchandising and in-store selling, product mix refinements, expansion of our customized distribution system, and growing acceptance of convenience store shopping.

Southland's dairies had one of their finest years, with record sales and profits, as divisional operations reacted quickly to various economic changes and consumer resistance to higher prices while repeatedly faced with spiraling farm milk costs. Increasingly effective management controls, more aggressive marketing, introduction of new products, and productivity increases - resulting from our continuing plant modernization and automation programs also contributed to the dairies' suc-

cessful year.

Accentuating our confidence in the future, Southland's capital expenditures were \$78.6 million, the largest single-year investment program in our history. Of the total, \$66 million was invested in store expansion and our convenience store distribution system while \$12.6 million was invested in dairy plant modernization and automation programs and in expansion and improvement of other operations. Completion of our threecenter distribution system was a highlight of the 1973 program, and the system now serves some 52% of our convenience stores with about half of their merchandise. Our three-year program to enlarge and modernize the Corporate Office complex also was completed, and we are now beginning to realize the efficiencies of having the corporate staff in a single location.

We continued to put our investment emphasis on expansion of the major component of Southland's business, opening 426 new convenience stores in the United States and Canada, while closing 80, to boost the operating total to 4,801 at year-end. Prototypes of the next generation of our convenience store were included in the 1973 expansion program. There was a net decrease of 13 other food stores, and 80 candy shops were closed during the year. As of December 31, 1973, Southland retail stores totaled 5,045 with another 240 units under construction.

Southland's 1973 earnings included 6 cents per share from our equity in the earnings of foreign affiliates, although the earnings gain of the two United Kingdom retail food operations was diminished to some extent. and may be affected in the future, by the influences of international monetary instability.

We are extremely pleased that Southland will be participating in the modernization of Japan's retail food distribution system. Agreements were finalized in December for the introduction of the 7-Eleven concept into Japan through an area license granted to Ito Yokado Co., Ltd., one of that nation's largest and most successful retailers. We are extremely optimistic about the future of this venture.

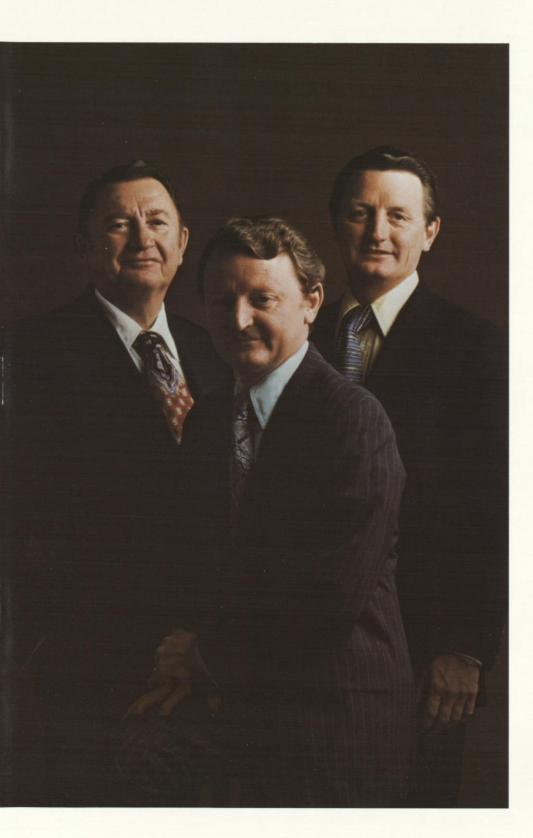
The sheer size and complexity of Southland's operations, as well as our projections of future growth, required the addition of another seasoned executive to share top management responsibilities. On December 31, the Board of Directors elected a Vice Chairman and a new President. This action, combined with the election of two Executive Vice Presidents in early 1973, provides the depth and breadth of experience necessary to manage your Company while accelerating future growth.

In addition, management was strengthened by the assignment of two Vice Presidents to separate operational responsibilities for Company-operated and franchised con-

venience stores.

Your Company's growth trend demonstrates that the convenience store is an integral and dynamic part of the retail food industry. Looking to the future, our studies of changing social behavior and lifestyles indicate that the consumer will have more free time and devote increasing attention to his leisure interests and activities. Thus, the demand for more convenience – less time and bother in buying daily needs and wants - will accelerate the trend of increased convenience store shopping for many years. Southland is dedicated to perpetuating its leadership in serving that growing demand.

Our current advertising theme, "If it's not around the house, it's just around the corner," certainly emphasizes the advantages of shopping at convenience stores. Located in neighborhoods where people live, instead



of in large shopping centers designed to attract shoppers from miles around, our stores are close enough for millions of Americans to walk or bike to their 7-Eleven. Others stop for quick buying while driving to or from work or en route to or from other activities, thus combining shopping with their other activities.

We look forward to excellent growth in 1974, with or without government economic controls, as our human and economic resources are structured to maximize Southland's opportunities and maintain our tradition of leadership in the rapidly growing convenience store business.

Your Company's achievements and expectations are based on the demonstrated capabilities, dedication, and accomplishments of the "Southland family" and the sustained support of our suppliers, shareholders, and customers. This loyalty could not be more appreciated.

Very truly yours,

John Thompson

John P. Thompson Chairman (center)

H. E. HARTFELDER

Vice Chairman (left)

JERE W. THOMPSON President (right)

March 15, 1974

# The happy Family of 7-ELEVEN. Customers

A REVIEW
OF
STORE OPERATIONS



Less than a mile from millions of American homes and apartments, convenient 7-ELEVEN food stores serve the daily needs and wants of the residents. The buildings, averaging 2,400 square feet, are attractively designed and compatible with their surroundings. A friendly invitation to the entire neighborhood is extended by the colorful signs, wide store fronts, and large, easily accessible paved parking areas.

Studies of representative customers indicate that approximately 600, 68% of whom are males, shop in each **7-ELEVEN** store during an average day. More than 40% are between the ages of 21 and 35, and 35% are children or teenagers. An additional 18% of the shoppers are between 36 and 50, and the remaining 7% are past 50.

In the early morning, on the way to work or school, neighbors shop the convenient **7-ELEVEN** way for hot coffee, breakfast pastries, hosiery, cosmetics, and school supplies. All during the working day, salesmen, delivery truck drivers, utility repairmen, postmen, meter readers, construction workers, and vendors—the hundreds whose occupations bring them into residential areas—stop in the stores for cigarettes, cold drinks, snacks, or lunch-on-the-run. Young mothers find **7-ELEVEN** convenient for fast shopping at lunchtime and afternoon snacks

for the carpool. Housewives who discover a missing ingredient in the midst of party preparation or special occasion baking can go to 7-ELEVEN without the bother of changing clothes and makeup. In the evening, neighbors make fast trips to 7-ELEVEN for ice, beer, groceries, household necessities, and reading material, avoiding the crowded parking, tiresome walking, and aggravating check-out lines at the supermarkets.

Customers shop in the neighborhood convenience store several times during a week, completing each purchase in an average 31/2 minutes, as opposed to more than 30 minutes required for weekly supermarket shopping. They stop at 7-ELEVEN for only one or two items but often decide to make additional purchases, simply because the salesperson is helpful and friendly, the store is bright and clean. and their favorite product brands are easily spotted on the shelves, uncluttered by rows of identical items in a confusing variety of sizes. The convenience of location, the ease of access, and the availability of quality products combine to create the kind of merchandising magic that attracts and retains customers.

Being in the right place, with the right merchandise, at the right time ... 7-ELEVEN formula for success.

## CLEVELAND PUBLIC LIBRARY BUSINESS INF. BUR. CORPORATION FILE

# IF IT'S NOT AROUND THE HOUSE, IT'S JUST AROUND THE CORNER!



#### PERCENT CONVENIENCE STORE SALES (BY PRINCIPAL PRODUCT CATEGORY)

	1969	1970	1971	1972	1973	
Groceries	19.2%	18.7%	17.9%	18.2%	18.2%	
Tobacco Products	13.4	13.7	14.0	15.6	15.8	
Beer/Wine	11.6	11.9	12.6	13.5	13.6	
Non-Foods	12.5	11.7	11.3	10.7	11.4	
Dairy Products	12.8	13.2	13.4	11.8	11.3	
Soft Drinks	11.6	11.2	11.2	11.2	10.8	
Baked Goods	6.2	5.8	6.1	6.0	5.9	
Health/Beauty Aids	6.5	6.9	6.5	5.6	4.9	
Candy	5.1	5.0	4.9	4.9	4.8	
Other Food Items	1.1	1.9	2.1	2.5	3.3	
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	

**7-ELEVEN** stores carry about 3,000 different items. Included in the grocery category are frozen foods, cookies, crackers, deli items, snacks, chips, produce, eggs, dry groceries, soaps,

detergents, and other household products. "Non-Foods" are appliance rentals and sales of magazines, books, newspapers, money orders, ice, toys, novelty merchandise, gasoline.





SMILEY'S sandwiches are "Hot-to-Go" in seconds.







Ice cold **7-ELEVEN** soft drinks are favorites at break-time.



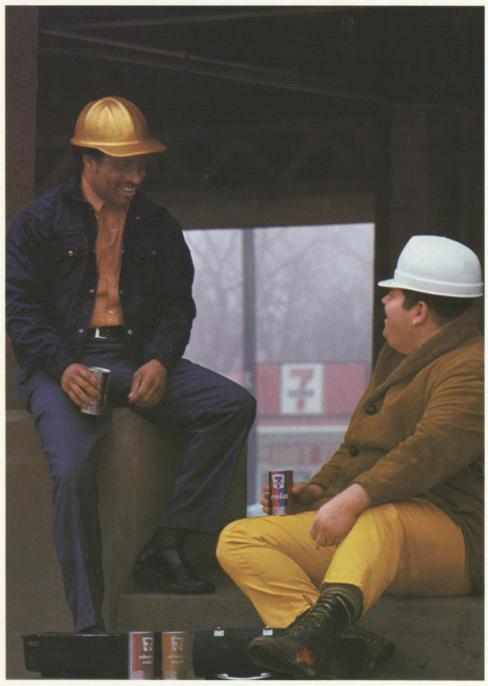
#### POPULAR PRODUCTS

7-ELEVEN stores carry widely accepted national and regional brands of merchandise and a variety of take-out foods, as well as an increasing number of Southland private and controlled label products. More than 2,500 of the stores now have a wide selection of popular SMILEY'S sandwiches, which are prepared by our new Food Centers at the three Southland Distribution Centers in Orlando, Florida; Tyler, Texas; and Fredericksburg, Virginia. Although Southland had operated sandwich-making facilities in some areas since 1969, the new Centers provide a greater variety of consistently high-quality products.

Most of the 4,800 convenience stores offer a variety of take-out foods. The selection, varying from store to store, may include pizza, meat and fruit pies, fried chicken, tamales, fish and chips, popcorn, barbecue, coffee, hot chocolate, pastries, and other regional favorites.

The fast food program will be expanded during 1974 and promoted through radio and television advertising and in-store merchandising.

About 40% of 7-ELEVEN sales originate in the large refrigerated merchandise areas where cold drinks, dairy products, and deli items are attractively displayed.





When a lady has a serious disaster, SHEERLY BELOVED comes to her rescue.





In many 7-ELEVEN stores, an entire wall is lined with a convenient row of gleaming glass and chrome compartments which provide quick access to refrigerated merchandise and are easily stocked from the cold storage room behind. Approximately 40% of all sales are products merchandised from these refrigerated vaults, which, during 1973, supplied customers with more than 532 million bottles or cans of beer, 820 million soft drinks, and 60 million gallons of milk. In addition to nationally advertised brands, 7-ELEVEN soft drinks and mixes were stocked in most stores and represented 12% of soft drink sales in the markets where they are offered.

Distribution of Southland private and controlled label brands, including products of the Reddy Ice and Dairy Divisions, was increased during the year and accounted for approximately 20% of store sales. The excellent quality of these products, combined with innovative merchandising and advertising, as well as the distinctive labels and logos, have resulted in their widespread consumer acceptance.

Controlled label products include SHEERLY BELOVED hosiery, SUNNY SEVEN fruit juice concentrates and sunglasses, SUPER SEVEN charcoal, and LUVIT paper products.

More than 4.1 million pairs of SHEERLY BELOVED, Southland's quality hosiery brand, were sold in 1973. In addition to orange juice, the top quality SUNNY SEVEN concentrate line now includes lemonade, limeade, and pink lemonade. Sunglasses for both adults and children,



For parties, **T-ELEVEN** ice, dips, mixes . . . everything except the good company.



also recent additions to the SUNNY SEVEN line, were introduced in some markets and will be available in other areas during the year. SUPER SEVEN charcoal, sold in several of the store divisions, has enjoyed wide consumer acceptance. Other products are under consideration as additions to the SUPER SEVEN line.

Attractive package designs, shelf arrangement, and point-of-sale promotions of LUVIT paper towels, napkins, and toilet tissue have made these frequently forgotten items popular choices in the stores. Additional paper products and several cosmetic items may be added to the LUVIT line.

#### REDDY ICE sold more than 4.5 million bags of ice through 7-ELEVEN.

Ice, the Company's first product line, is still conveniently available at most **7-ELEVEN** stores. The familiar self-service REDDY ICE merchandiser provides the extra ice often needed for parties and other special occasions.





Swapping SLURPEE "tradin' cups" became a nationwide hobby.

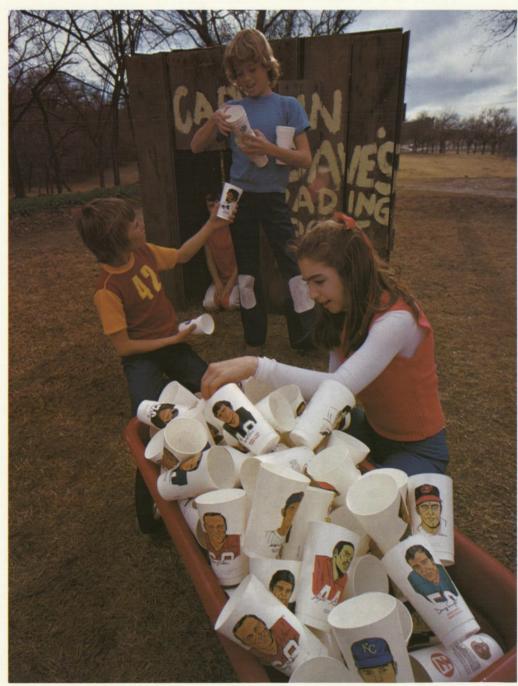


#### YOUNG IDEAS

"Oh, Thank Heaven For 7-Eleven" is a favorite song among the neighborhood youngsters because "their" store is the handy source of comic books, small toys, candy, and school supplies. Before and after school, the parked bicycles in front of 7-ELEVEN invite the school children to join the crowd for cold drinks and snacks. Unlike many retail establishments, the neighborhood convenience store encourages the friendship and patronage of children, who represent 11% of all 7-ELEVEN customers. Many store managers and franchise owners also provide important community service by sponsoring contests, staging special youth-oriented promotions, participating in local school events, and underwriting neighborhood athletic teams.

More than \(^{1}\)3 of 7-ELEVEN's customers are teenagers and young children.

Millions of teenagers, 23% of 7-ELEVEN's customers, responded enthusiastically during the year to "tradin' cup" promotions of SLURPEE, a long-time favorite. The cups feature pictures and biographical data about professional football, baseball, basketball, and hockey players. The comic character series, a 1974 addition to "tradin' cups," is coordinated with a promotion of comic books, toys, and novelty merchandise.





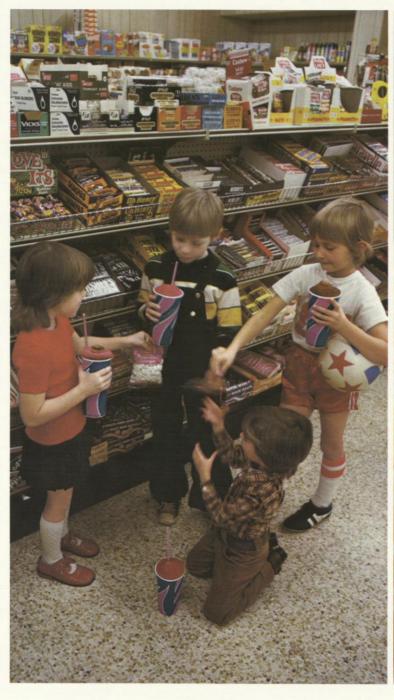
Youngsters enjoy their allowances at 7-ELEVEN.





Young-at-heart customers of all ages shop 7-ELEVEN.









"Since you'll pass
7-ELEVEN on the way home,
pick up a loaf of bread,
a quart of milk, and . . ."



#### ON THE WAY HOME...

Many of the customers who rush into **7-ELEVEN** stores in the late afternoon are businessmen and women who save gasoline and time for other members of their families by stopping on the way home from work to buy essential groceries, housekeeping products, and a variety of other items for dinner, evening socials, or tomorrow's breakfast.

#### More than 65% of 7-ELEVEN customers shop in the afternoon and evening.

Those who regularly pass 7-ELEVEN while going about their daily activities often take advantage of the self-service gasoline pumps at 463 store sites in 22 states, an increase from 356 installations at the end of 1972. Plans for the addition of gasoline service areas at some store sites were necessarily revised as supplies became more limited during the year. Nevertheless, through the cooperation of the brokers and distributors serving Southland, gasoline service was available throughout the year. Sales of gasoline contributed 1.8% of corporate revenues, up from 1.2% in 1972, and are expected to show another increase in 1974.

Self-service gasoline attracts customers, ½ of whom buy additional merchandise.

**7-ELEVEN** stores ring up more than 30% of sales on Saturdays and Sundays when busy customers buy items needed for social, recreational, and other leisure-time activities.







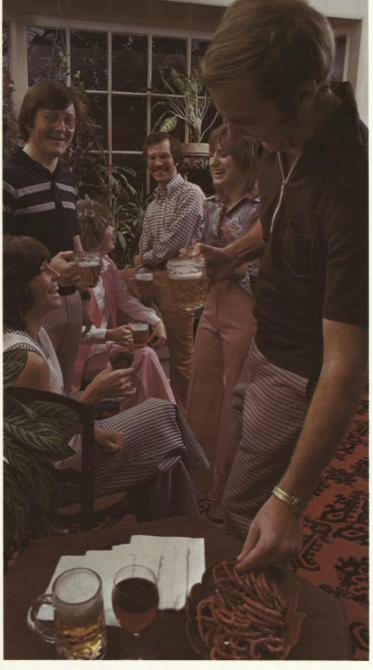




Beer and wine for parties . . . planned or impromptu.







#### IT'S ABOUT TIME

#### HOT-TO-GO TAKE-OUT FOODS

#### FILL UP AND CATCH UP











# QUICK FAST CONVENIENT FRIENDLY SHOPPING SERVICE

### THE NEIGHBORLY STORE









#### KEEPING CUSTOMERS HAPPY...

Maintaining **7-ELEVEN**'s enviable record of year-after-year growth in sales and profits demands foresight in merchandising, planning for new and better stores, recruiting and training of additional personnel, continuing reinforcement of management, and accurate forecasting of customer needs, preferences, habits, attitudes, routines, and life-styles.

#### RESEARCH

Results of customer profile studies and test marketing of new products are used to customize product selection to local preferences. Monthly analyses of product movement by major categories in each of the 170 operating districts detect quickly any unusual developments or new trends in consumer buying patterns. The information is an invaluable merchandising aid in determining products, allocation of shelf space, and changes in store layout.

Other research conducted during 1973 measured changes in customer attitudes and awareness of 7-ELEVEN in major markets. One 5-month survey, which included interviews with customers outside the stores, was used to determine awareness of 7-ELEVEN advertising. The results showed extremely high advertising "reach." Approximately 80% of those interviewed demonstrated unaided recall of specific advertisements, and more than 33% showed total awareness of a current advertising campaign. The results of the survey were correlated with sales and expenditures to measure advertising effectiveness.

(Above Right)
Information gathered from customers
is used to determine
ways of improving **T-ELEVEN** service.

(Below Right)
Merchandising decisions are based
on computer analyses of product movement and turnover data.





#### STORES OF THE FUTURE OPEN TODAY

In anticipation of tomorrow's convenience store requirements, a new design and layout for future stores was introduced and enthusiastically received during the year. Merchandising was the paramount consideration in development of the design. It will make possible further standardization of product placement for the convenience of customers, more efficient use of space, faster receiving and stocking, and sufficient space allocation for the attractive new take-out food counters and equipment. The design is sufficiently flexible to allow for merchandising and equipment variations among different areas while meeting current and foreseeable building code and healthsanitation requirements in all states.

Three different exterior store fronts make possible construction of stores that will be compatible with the established 7-ELEVEN architectural image in various areas. The interior will appear roomier while requiring only the basic 2,400 square feet of space. A large, 12-door vault at one side of the store, instead of in the back as was formerly customary, allows faster and easier access to refrigerated merchandise. The new design, which improves security control through easier visibility, also features standard construction materials and techniques, provisions for future merchandising innovations, and separation of the successful fast food operations from other sales activities.

> (Above Right) The new store plan will be used for many of the stores to be opened in 1974.

(Below Right)
The sales counter, center
of convenience store activity,
is enlarged in the new design.





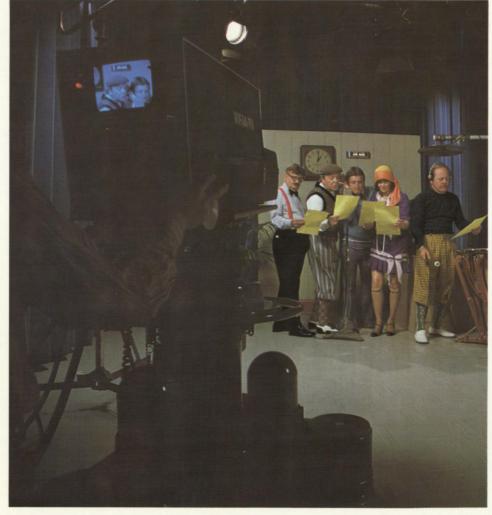
#### PROMOTION AND ADVERTISING

Inventive and creative 7-ELEVEN commercials are heard, seen, quoted, sung, and remembered because they combine selling with fresh humor and novel entertainment, creating both interest and excitement. During 1973, two 13-week advertising campaigns conducted in all store divisions served to publicize the 7-ELEVEN convenience store concept through 215 television and 377 radio stations. A total of 815 radio and 239 TV spot commercials were produced. Variations of the well-known musical theme, "Oh, Thank Heaven For 7-Eleven," were combined with the slogan, "7-Eleven ... It's About Time," to emphasize the time-saving benefits of convenience store shopping. A new theme, "If It's Not Around the House, It's Just Around the Corner," points to the energy-saving advantages offered by neighborhood 7-ELEVEN stores.

An identification campaign conducted in some areas promoted shopping at "The Big Red 7 & The Bright Green Eleven" store. Additional advertising through radio and TV spots, store-front banners, and point-of-sale materials was coordinated with local merchandising promotions of SLURPEE "tradin' cups," and of magazines, ice, records, tapes, watermelons, apples, Christmas trees, and other seasonal items.

Oh Thank Heaven





#### **FRANCHISING**

At year-end, 2,042, or 42.5% of all **7-ELEVEN** stores, were individually franchised, or available for franchise, from the Company in several areas.

After approving qualified applicants for a franchise, Southland trains two individuals — often married couples — who will participate personally in operating the store. Included in the training fee charged by Southland is an allowance for travel, meals, and lodging of the trainees while attending the Training School. An additional fee is charged for preparing the store for opening.

Southland leases or sub-leases to the franchise owner a ready-tooperate **7-ELEVEN** store which has been fully equipped and stocked.

Franchise owners pay for all business licenses and permits and are required to invest an amount equal to the cost of the store inventory, plus a cash register fund of about \$250.

The Company shares in the gross profits of the store, which is the charge to the franchise owner for the license to use the 7-ELEVEN system and trademarks, for use of the premises and equipment, and for continuing services provided by Southland, including merchandising, advertising, bookkeeping, store audits, and preparation of financial statements. Southland bears building, utility, and equipment costs, and property taxes.

Franchise owners pay all operating expenses including payroll; payroll, sales, and inventory taxes; inventory and cash variations; supplies; certain repairs and maintenance, and other controllable in-store expenses. The franchise may be terminated by the franchise owner at any time and by Southland only for cause. In event of expiration or termination of the franchise, the Company will repurchase the franchise owner's interest in inventory and other assets in the business, and the franchise owner has no continuing lease obligation.

#### **TRAINING**

Thorough training and continuing re-training of personnel on all levels are vital to Southland's convenience store philosophy. Corporate store personnel and 7-ELEVEN franchise owners are trained at one of 29 store training schools where they learn convenience store operations. Included are customer service, record keeping, ordering and receiving merchandise, store security, cash register operation, and store maintenance.

Operational management personnel are trained in the Corporate Training Center which moved, early in 1974, into larger, more modern quarters in the North Wing of the Corporate Office complex. Three classrooms, replacing the former one, and additions to the training staff will make possible an increase in the number of training programs offered, provide greater flexibility in the curriculum, and allow earlier training of new management personnel. Advanced audio-visual equipment, including TV cameras, monitors, recorders, speakers, and projectors, serve each of the classrooms individually. From a central control room, the equipment projects to each classroom through speakers and rearview screens. Small study areas adjoining the classrooms afford privacy for independent study and small group discussions.

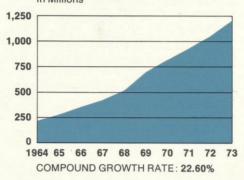
During 1973, two new field programs were developed to train supervisors in the Southland Distribution Centers and to provide practical classroom experience in communications for field personnel who serve as counselors to franchise store owners. New and expanded programs planned for 1974 are courses for dairy supervisors, dairy and distribution center managers, divisional administrators, accounting personnel, and members of the corporate staff.

#### STORE GROWTH

For the first time in Southland's history, sales from **7-ELEVEN** convenience stores alone exceeded the \$1 billion mark, an increase of 16.2% over 1972 volume.

#### STORE SALES

In Millions

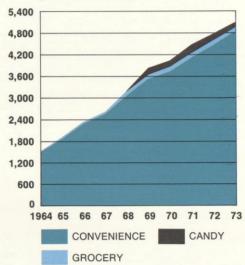


Total store sales reached \$1.215 billion, up 14.3% over 1972, and represented 87% of corporate revenue. The \$152.2 million increase in sales was accomplished through the opening of new stores, excellent gains in average store volume, introduction of popular new products, and more efficient use of selling space.

The 435 new stores opened during the year increased the total number of retail outlets to 5,045, from 4,787

#### STORE GROWTH

Number of Stores By Type (As of December 31)



the previous year. Because of population shifts, changes in local economic conditions and traffic patterns in some areas, as well as expiration of leases, 80 convenience stores were closed. Also, 80 candy shops and 17 grocery outlets were closed or disposed of.

The geographical scope of retail operations was expanded into Minnesota, New Hampshire, and an area of eastern Tennessee. During 1974, additional markets will be entered, including new stores in Iowa where sites already have been acquired. At the end of 1973, Southland had retail outlets in 37 states and the District of Columbia as well as three provinces of Canada and in Mexico.

As sales volume is the key to a store's success, and location is the key to sales volume, scientific site selection is a vital part of Southland's convenience store concept. Divisional personnel include 58 real estate representatives who physically count the housing units within defined trade areas, research planned construction and population trends, and analyze traffic counts and patterns which affect proposed new store sites. This data and other statistics are then weighed against such factors as existing and predictable competition, traffic pattern trends, property values, and lease requirements before a site is finally selected.

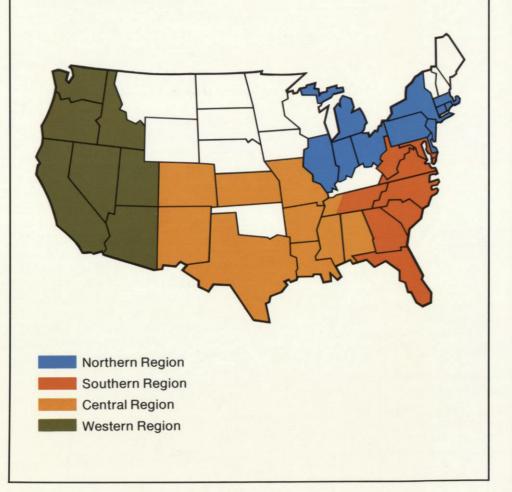
More than 57% of the convenience stores remain open longer than the conventional 7 till 11. At year-end, 1,983 operated 24 hours a day and an additional 776 for extended hours.

#### STORE EXPANSION SUMMARY

	Opened	Closed	End of Year
Convenience Stores		The second	
United States	420	79	4,726
Canada	6	1	75
Mexico	1	_	4
Total	427	80	4,805
Gristede's and Charles & Co	4	11	127
Bradshaws	_	6	3
Barricini and Loft's	4	80	110
TOTAL	435	177	5,045

#### STORE REGIONS

Store operations are divided into four Regions, 14 Divisions, 57 Zones, and 170 Districts.



#### DISTRIBUTION

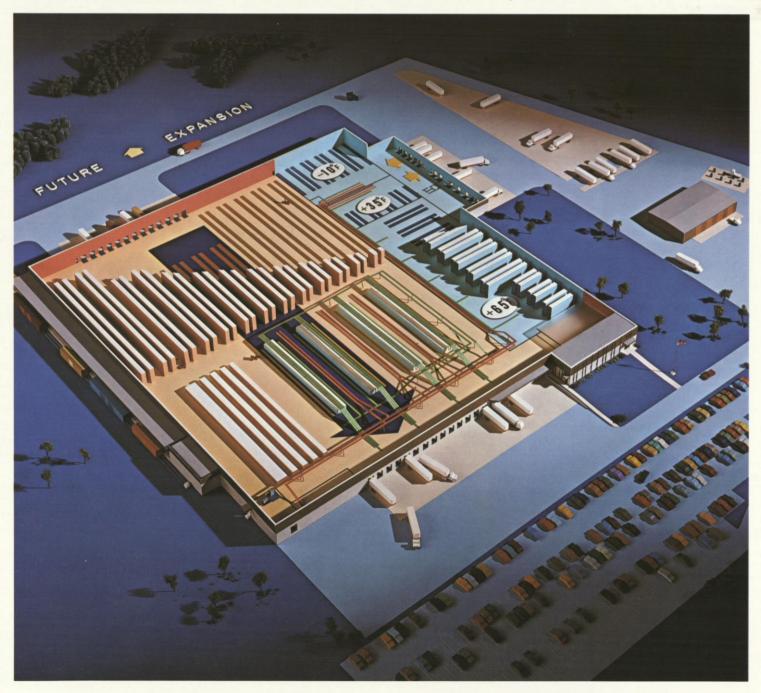
Southland's unique, widely publicized system of merchandise distribution to its convenience stores continues to draw nationwide attention. During the year, the network was expanded and now includes three Distribution Centers which, together, serve more than 52% of the convenience stores with approximately 50% of their merchandise inventories.

The 350,000 square foot Center in Tyler, Texas, opened on May 1, is serving 838 stores in three Divisions.



Another new Center, of 478,000 square feet, opened on October 1 in Fredericksburg, Virginia, supplies 970 stores in four Divisions.

(Below)
Design and layout of the Tyler Center features separate storage areas to keep frozen foods at -10°F, refrigerated merchandise at +35°F, dry groceries and non-foods at+65°F.



The Orlando, Florida Center, which began operations in 1971, added 120 stores in Georgia to its delivery routes, bringing the total number of stores supplied to 702, an increase of more than 20%.

Each Center warehouses more than 1,500 different items, providing the stores with dry groceries, refrigerated merchandise, and non-foods. Products ordered in less than full-case lots may be unit price-marked at the Centers, affording considerable time savings at the store level.

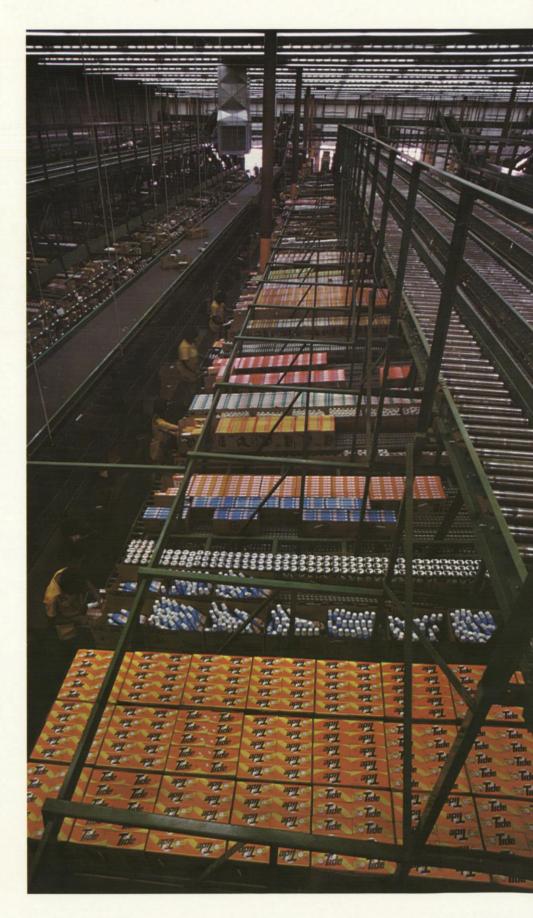
Computers are used extensively in the distribution operation. Individual store orders are transmitted through keyboard terminals in 86 District Offices for central computer processing. Custom-designed merchandise movement containers, known as "tote boxes," are carried by computer-controlled conveyors to platforms for loading onto truck-trailers, which are divided into sections for frozen, chilled, and dry merchandise. Both the loading operations and the delivery route scheduling are also computer organized.

During the 2½ years since its opening, the Orlando Center has achieved an unprecedented record of a 98.1% fill-rate of items ordered.

Although the Tyler Center was open only eight months during the year and the Fredericksburg facility only three months, many operating efficiencies already have been realized. Reductions in store inventories and faster turnover have made available 300-400 feet of shelf space per store for stocking additional items and for installation of new fast food equipment.

All start-up costs of the distribution centers have been expensed, and the three-center system passed the breakeven mark during the year and will contribute to profits in 1974.





(Left)
"Pickers" select items
for individual stores.

(Below) Hydraulic lifts assist in truck loading. (Right) Southland Food Center employees prepare SMILEY'S sandwiches.





#### DAIRY OPERATIONS

Sales and profits from dairy operations were the highest in the Company's history. Sales, including intercompany sales of \$81 million, were \$239 million, up 9.6% over 1972. Intercompany sales for the year increased 12.5% while sales to outside customers rose 8.2% and accounted for 11% of corporate revenues. Attainment of the excellent increases is attributable to increasingly effective management controls, more aggressive marketing, introduction of new products, and productivity improvements resulting from the Company's continuing plant modernization and automation programs.

The dairy industry as a whole experienced extreme difficulties during the year as cattle feed costs spiraled while raw milk production declined approximately 3%. As dairy farmers faced inflationary prices for grains, herds were culled, resulting in decreased production. Many who were forced to reduce herd rations and employ cheaper and less nutritious foods, saw a decline in per-cow production for the first time in 30 years.

The increase in feed grain prices, coupled with the production decline, resulted in substantial increases in farm prices for milk after the Phase III freeze was lifted in mid-summer. Although Phase IV regulations are slightly less restrictive and permit pass-through of farm milk price increases, consumer resistance necessitated some cost absorption.

The dairies supplied approximately 73% of the dairy products sold in the Company's **7-ELEVEN** stores.

Highlights of the 1973 plant modernization and automation programs included:

The Oak Farms main plant and general offices in Dallas were extensively renovated by remodeling both the exterior and interior. The Midwest Farms ice cream plant in Memphis was also remodeled and expanded through the addition of a two-story ice cream hardening room and a new loading dock.

The construction of a new Midwest Farms ice cream and milk distribution branch in Nashville was completed.

Ground was broken in September, 1973, for the new Embassy plant in Charles County, Maryland. Located on a 27-acre site, the 60,000 square foot facility, to be completed in 1975, will have the capability of processing more than 15 million gallons of milk a year. The plant's automated equip-

ment, as well as the increased output, are expected to improve service, allow the introduction of new products, and enable Embassy to better serve customers throughout the Washington, D.C., Maryland, and Virginia areas.

Additions to the Bancroft plant in Madison, Wisconsin, included a large facility for receipt of farm milk, a new cottage cheese filling room, and an enlarged warehouse. Production capacity was increased for Bancroft's long-life ultra-pasteurized cream products, including production capability of 750,000 individual coffee creamers per day.

#### DISTRIBUTION OF DAIRY SALES **CUSTOMERS** 1969 1970 1972 1973 1971 Wholesale ..... 41% 42% 44% 48% 49% 27 24 32 33 34 Home Deliveries ..... 8 4 3 3 Distributors and Others . . . . . . . 23 20 16 14 TOTAL 100% 100% 100% 100% 100% **PRODUCTS** 1969 1970 1971 1973 1972 Milk, cottage cheese and other food items ..... 84% 84% 84% 84% 86% Ice cream and related products . . 16 16 16 16 14 TOTAL 100% 100% 100% 100% 100% **DAIRY SALES** 240 (Including Intercompany) In Millions 180 150 120 INTERCOMPANY NET OUTSIDE COMPOUND GROWTH RATE: 30 0 -1964 65 67 68 69 70



Other improvements completed during the year included Adohr Farms' new distribution facility in San Diego and a milk storage area in Santa Ana, Horten's enlarged milk cooler in Cleveland, and Briggs' remodeled refrigeration and boiler rooms in Dunkirk, New York.

Harbisons in Philadelphia made a significant processing improvement through its innovative adaptation of a Danish-made instrumentation machine which measures and controls butterfat content in milk. Sophisticated automation of the equipment eliminated several expensive and time consuming manual elements in milk processing and also improved quality control.

A warehouse and a dairy product storage vault were added to the Speciality Foods Division plant in Sulphur Springs, Texas. The Division introduced a new sterile eggnog and expanded, through eleven states, its sales of dips, yogurts, juices, toppings, and ultra-pasteurized creamers. The plant in Fort Worth prepares the salad ingredients used by the Southland Food Centers in the "Hot-to-Go" food program and, also, produces FARM FIELD meat, vegetable, and fruit salads which are distributed through five of the Company's dairy divisions and other retailers and to institutions throughout several Southern and Southwestern states including Texas, Colorado, Arkansas, Louisiana, and Tennessee.

(Above Right)
Increased sales and
addition of new products
required expansion in
Sulphur Springs, Texas.

(Below Right)
Oak Farms renovated its
main facility in Dallas.







#### OTHER OPERATIONS

Southland's diversified businesses, representing less than 2% of corporate revenues and including truck leasing, chemical processing, candy manufacturing and wholesaling, advertising, and ice manufacturing, recorded a 18.9% increase in sales to \$20.8 million from \$17.5 million in 1972.

#### (:)

Hudgins Truck Rental, Inc., opened maintenance facilities at the new Southland Distribution Centers in Tyler, Texas, and Fredericksburg, Virginia, to service the fleets in those locations. A garage opened in 1971 at the Florida Distribution Center to service the trucks there. A combination truck make-ready and vehiclerebuild center, under construction in Fort Worth, will be completed in early 1974. The new facility will be used to train all new mechanics throughout the Hudgins system, as well as to make new equipment ready for use by customers in the immediate geographical area and to rebuild engines and other vehicle components.



More than 200 Hudgins employees now work through the garages in the Distribution Centers as well as in Houston, Dallas, Fort Worth, El Paso, and Arlington, Texas; in Miami, Florida; and Sikeston, Missouri, to handle a growing number of full-maintenance leases with other companies. Sales to outside customers accounted for 81.8% of total sales in 1973, and additional business with major companies in other areas of the country is anticipated in 1974.

The Chemical Division is completing a 50,000 square foot addition to its present 97,000 square foot plant in Dallas. The increased plant capacity will be utilized in the processing of a new chemical compound which improves sealing of metal cans. Another new product developed during the year is a stripable coating compound used in painting processes.



Production and distribution of CRE-MEL flavor compounds and syrups, SLURPEE flavor concentrates, food processing products, and cleansing and sanitizing agents were continued throughout the year. Approximately 55% of the division's sales were to outside customers.

#### (3)

Ice manufacturing, the operation on which Southland was founded in 1927, was expanded in 1973 with an addition to the Austin, Texas, plant of an automated 50-ton turbo manufacturing and processing installation. Reddy Ice also operates other plants in Texas as well as in Florida, Georgia, and Nevada, and distributes block and processed ice to 7-ELEVEN stores and other commercial customers in seven states. Distribution will be expanded in 1974 into additional markets in Arizona, Alabama, Florida, and Missouri. Almost 65% of ice sales were to outside customers.



The Barricini and Loft's wholesale candy business in metropolitan New York distributes through approximately 3,500 drug and department stores, gift and card shops, supermarkets, and other retail outlets in 36 states, the District of Columbia, and Puerto Rico. Wholesale customers accounted for 53% of total sales.

**{:}** 



#### SHAREHOLDER INFORMATION

#### **SECURITIES TRADED:**

**COMMON STOCK** 

New York Stock Exchange 5% CONVERTIBLE SUBORDINATED DEBENTURES Luxembourg Stock Exchange

#### STOCK TRANSFER AGENTS:

The Chase Manhattan Bank, N.A. New York City First National Bank in Dallas Dallas, Texas

#### STOCK REGISTRARS:

First National City Bank New York City Texas Bank & Trust Company of Dallas Dallas, Texas

#### ANNUAL MEETING:

The Annual Meeting of the Company will be held at 10 a.m., Wednesday, April 24, 1974, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

#### MAILING ADDRESS:

P.O. Box 719, Dallas, Texas 75221

#### TELEPHONE:

214/828-7011 (CENTREX)

#### BOARD OF DIRECTORS

JOHN P. THOMPSON Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER Vice Chairman of the Board

JERE W. THOMPSON President

WEBSTER ATWELL of Counsel. Atwell, Cain, Davenport & Jones

J. Y. BALLARD Independent Consulting Engineer

WALTON GRAYSON, III **Executive Vice President** 

W. W. OVERTON, JR. Chairman of the Executive Committee Texas Bank & Trust Company of Dallas

CLIFFORD W. WHEELER Vice President

#### OFFICERS

JOHN P. THOMPSON Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER Vice Chairman of the Board

JERE W. THOMPSON President

WALTON GRAYSON, III Executive Vice President, Administration and Services

JOSEPH S. HARDIN Executive Vice President, Planning and Special Operations

M. T. COCHRAN, JR. Vice President, **Dairy Operations** 

S. R. DOLE Vice President. Company Franchised Convenience Stores

VAUGHN R. HEADY Vice President, Company Convenience Stores

FORREST STOUT Vice President, Southern Stores Region

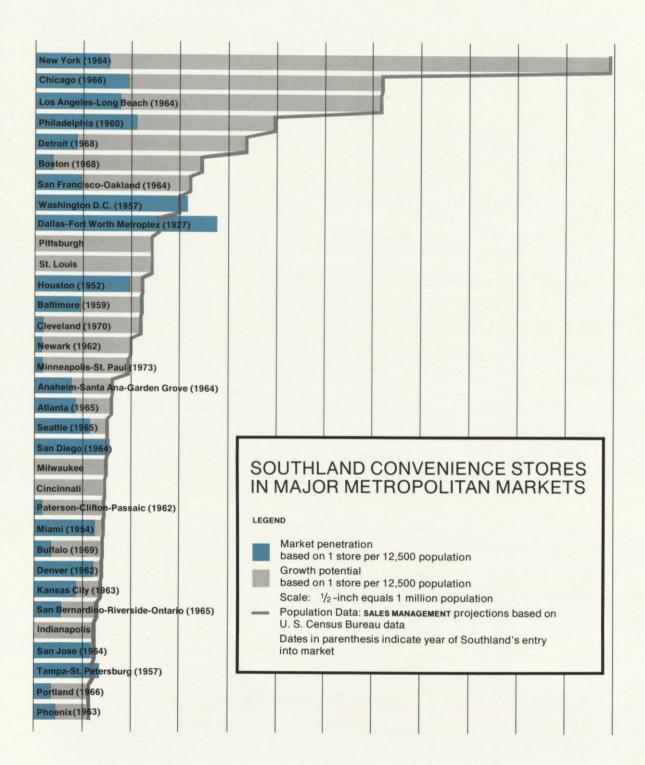
CLIFFORD W. WHEELER Vice President, **New Areas** 

CLARK J. MATTHEWS, II Vice President. General Counsel

W. K. RUPPENKAMP Vice President, **Financial Relations** 

R. G. SMITH Secretary and Treasurer

P. EUGENE PENDER Controller



## CORPORATE HEADQUARTERS





#### FINANCIAL REPORT

#### REVENUES

Sustained internal growth in all operations contributed the 13.7% increase in consolidated revenues to an all time high of \$1,396,491,249, up \$168,140,984 over 1972's record \$1,228,350,265. Total store sales rose 14.3% while dairy sales increased 8.2%, and other operations showed gains of 18.9% over 1972.

NET REVENUE	ES (Millions)		
QUARTER	1973	1972	GAIN
First Second	\$ 303.0 351.8	\$ 276.2 312.8	9.7 12.5
Third	374.1	325.4	14.9
Fourth	367.6	314.0	17.1
TOTAL	\$1,396.5	\$1,228.4	13.7

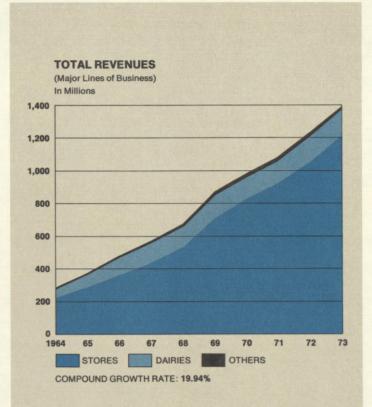
The long-term upward trend in consumer demand for convenient shopping again was reflected through substantial gains in average sales volume of our convenience food stores.

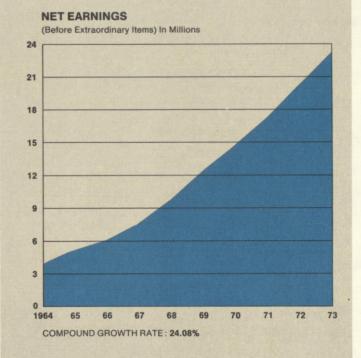
Store sales were 87% of total corporate revenues with Dairy Divisions representing 11%, and other operations 2%.

#### **NET EARNINGS**

Consolidated net earnings for the year also reached a new high of \$23,328,422 by maintenance of overall profitability through increased volume, improved product mix, and renewed emphasis on continuing programs to improve productivity and reduce operating costs. The 14.5% increase over 1972 earnings of \$20,365,987 was achieved notwithstanding an inflationary economy, shifting consumer attitudes, sporadic shortages of a variety of merchandise, increased costs, and complex and restrictive government regulations which exerted extreme pressure on margins.

NETEARNING	S (Thousands)		
QUARTER	1973	1972	% GAIN
First	\$ 2,878	\$ 2,505	14.9
Second	6,£76	6,078	14.8
Third	7,727	6,638	16.4
Fourth	5,747	5,145	11.7
TOTAL	\$23,328	\$20,366	14.5





Net return on revenues for the year was 1.67%, compared to 1.66% in 1972.

Store operations represented 86% of total corporate operating profits while dairy and other operations contributed 14%.



#### **EARNINGS PER SHARE**

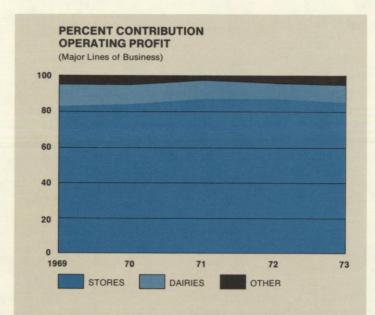
Primary earnings per share were \$1.42, a gain of 10.9% over 1972 earnings of \$1.28. Average shares outstanding were 16,395,576, an increase of 3.1% over the 15,909,634 shares outstanding in 1972.

Assuming full dilution, earnings per share for the year were \$1.36 compared to prior year earnings of \$1.21, up 12.4%. Diluted earnings were computed on the basis of 17,993,643 average shares, a 2.6% increase over the 17,532,850 average shares a year earlier.

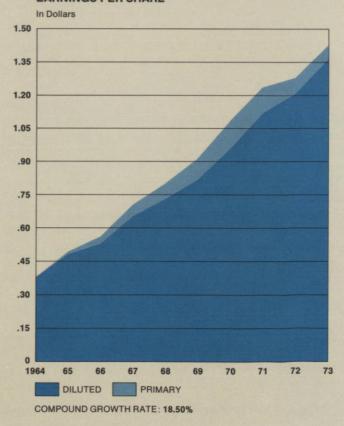
Comparative earnings per share by quarters, adjusted for 3% stock dividends in each year, were as follows:

	P	RIMARY	1		)	
QUARTER	1973	1972	% GAIN	1973	1972	% GAIN
First	\$ .18	\$ .17	5.9	\$ .17	\$ .16	6.3
Second	.42	.39	7.7	.41	.36	13.9
Third	.47	.41	14.6	.44	.39	12.8
Fourth	.35	.31	12.9	.34	.30	13.3
TOTAL	\$1.42	\$1.28	10.9	\$1.36	\$1.21	12.4

Over the past 10 years Southland has had a compound annual growth rate in primary earnings per share of 18.5% and 18% in diluted earnings per share.



#### **EARNINGS PER SHARE**



#### **FOREIGN INVESTMENTS**

During the year, Southland increased by \$2 million its investment in the retail food industry in the United Kingdom. Of this amount, \$1.6 million was invested in Southland-Cavenham Limited, of which Southland owns 50% of the stock, in accordance with the terms of the purchase agreement with Cavenham Limited. This additional investment was made after the operations met established profit objectives in the agreed time period.

Also, \$400,000 was invested in Cavenham-Southland Limited, of which Southland owns 50% of the stock, for the acquisition of additional shares in Wright's Biscuits Ltd. and Moores Stores Ltd. Cavenham-Southland now owns approximately 88% of Wright's and, through this ownership, directly or indirectly controls 100% of Moores.

Total investment in the United Kingdom operations at the end of the year was \$20.5 million, \$9.7 million of which was in Southland-Cavenham and \$10.8 million in Cavenham-Southland.

Sales of the CTN (confectionery, tobacco, news) stores controlled by Southland-Cavenham, which are not included in Southland's total revenues for the year, were \$47.3 million for the 12-month period ended October 13, 1973. On that date 367 stores were in operation.

Wright's and Moores operate approximately 729 retail grocery outlets in England, Scotland, and Wales under various trade names. Sales for the 12-month period ended October 13, 1973 were \$157.2 million and are not included in Southland's total revenues for the year.

The United Kingdom companies conducted business under various government controls during the year without significant effect on operating results. Sales and profits showed satisfactory increases although the earnings gain was diminished to some extent, and may be affected in the future, by the influences of international monetary instability.

During the year, Southland increased its investment in Mexico and opened the fourth **SUPER SIETE** convenience store in Monterrey.

Southland's equity in the earnings of foreign affiliates — stated net of interest on funds used to make the investments, amortization of the excess of investments over net assets acquired, and foreign and U.S. taxes — was \$928,544, compared with \$419,116 for 1972, equal to six cents a share. Sales and earnings were converted to U.S. dollars at the average rates of exchange during the reported periods.

#### **AREA LICENSES**

An area license agreement between Southland and Ito Yokado Co., Ltd., an outstanding Japanese retailing company, was finalized when contracts were signed in December, 1973. By terms of the agreement, initial fees of \$750,000 have been received by Southland and future royalty payments will be based on sales volume. The Company is not required to invest capital in the Japanese operations.

Southland's convenience store concept will be introduced into Japan when Ito Yokado opens its first **7-ELEVEN** store this year. A minimum of 10 stores will be opened by March, 1975 and 1,200 by 1982. Ito Yokado will operate some convenience stores, but plans primarily to franchise the **7-ELEVEN** operating system to select merchants from among Japan's 1.5 million existing small shopkeepers.

The Company has been training Ito Yokado's representatives in the U.S. in the 7-ELEVEN operating system and providing technical assistance to Ito Yokado in Japan since December. As most of the expense associated with Southland's obligations will be incurred in 1974, the Company's net profit from the initial fees will be reflected in income at that time.

Since 1968, Southland has granted exclusive area licenses in the U.S. to six companies for construction and operation of convenience stores using the **7-ELEVEN** system and name. These agreements cover certain areas of Arkansas, Iowa, Kansas, Kentucky, Michigan, Missouri, Nebraska, Oklahoma, Pennsylvania, Texas, and West Virginia. At the end of 1973, 96 stores were operating under these area licenses.

Sales of these stores are not included in Southland's net sales, and its income from royalties from these licenses has not been significant.



#### CAPITAL INVESTMENTS

Southland's 1973 capital investments for property, plant, and equipment were the largest in the Company's history, totaling \$78.6 million. This represented a \$46.5 million increase over the \$32.1 million invested in 1972. Outlays included \$66 million, or 84%, for store operations and the Tyler, Texas and Fredericksburg, Virginia distribution centers. Capital investments for dairy operations were \$4.5 million, or 6%, and for other operations were \$8.1 million, or 10%.

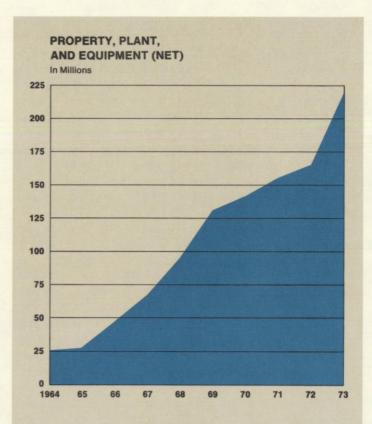
Investment in foreign affiliates was increased \$4 million during the year while temporary investment in land and buildings was reduced \$6.3 million as a result of the assets being mortgaged or sold to outsiders for cash and leased back.

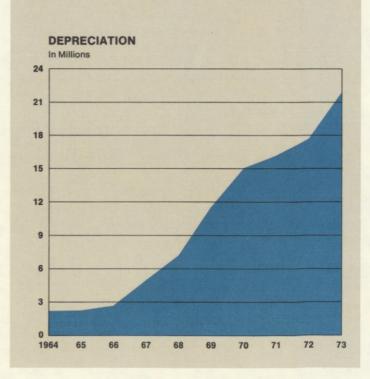
Southland places strong emphasis on ownership of fixed assets, although most of its retail store operations are conducted in leased facilities. As a general policy, the Company provides interim financing for capital investments while permanent financing is a combination of mortgage debt, internally generated funds, and debt securities. Mortgage debt is the preferred method for financing and \$31.5 million of land and buildings were mortgaged during 1973.

Many desirable store locations owned by third parties are available to the company only on a lease basis and. in addition, some company owned store locations have been sold and leased back. As a result, more than 75% of Southland's store operations are conducted under leases which are "noncapitalized financing leases" as that term is defined in recent amendments to the Securities and Exchange Commission's accounting regulations. As reguired by these regulations, the present value of "noncapitalized financing leases" and the impact on net earnings, assuming all such leased locations were owned and capitalized, is reflected in Note 9 to the financial statements. Assumed amortization on the approximate value of the facility, including land, plus imputed interest, is compared with actual lease rentals. Had such assumed amortization excluded the value of land (which is not depreciable under generally accepted accounting principles), the effect on stated earnings per share would have been minimal.

At year-end, the Company's investment in property, plant, and equipment, less accumulated depreciation, was \$219.3 million compared with \$165.3 million a year earlier. In 1973, \$21.5 million was provided for depreciation and amortization, an increase of 20.6% over the 1972 provision of \$17.9 million.







#### CAPITALIZATION AND FINANCIAL POSITION

The close of the year saw Southland in the strongest financial position of its 46-year history. Reflecting the mortgage financing of stores and distribution centers, long-term debt increased \$25.5 million to \$107.5 million representing 33.5% of total capitalization (long-term debt plus shareholders' equity), compared with 29.7% at the close of 1972 when long-term debt was \$82 million.

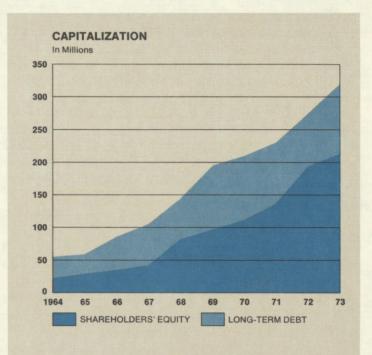
In March, 1973, the Company terminated its outstanding \$32 million revolving credit agreement established during 1971 with The Chase Manhattan Bank (National Association) and First National Bank in Dallas as it was anticipated that the funds available under this commitment would not be needed.

During 1972, the Company's capital structure was strengthened by the conversion of substantially all of the outstanding 51/2% Convertible Subordinated Debentures and \$750,000 of 53/4% Convertible Subordinated Notes into 1,705,359 shares of common stock. Additionally, in 1972 the Company sold overseas in a public Eurodollar offering \$30 million of 5% Convertible Subordinated Debentures. As a result of these changes in its financial structure, the Company is in excellent position to finance its growth over the next few years.

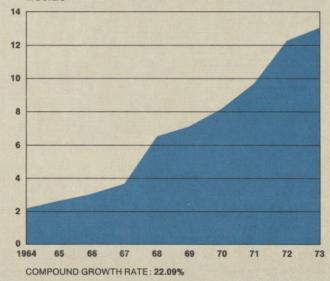
At year-end, 16,396,039 shares of common stock were outstanding, compared with 15,917,385 shares a year earlier, an increase of 478,654 shares. The 3% increase in shares outstanding is the result of issuing 6,798 shares upon the exercise of stock options and 473,247 shares in payment of a 3% stock dividend, and the cancellation of 1,391 shares escrowed in a previous acquisition. As of December 31, 1973, 1,591,929 shares were reserved for issuance upon conversion of notes and debentures and 196,288 shares for the employees' stock option plan.

Working capital at the end of the year was \$95.9 million, compared with \$107.9 million in 1972. The ratio of current assets to current liabilities was 1.96:1 compared with 2.14:1 the previous year. There was no short-term bank debt outstanding as of December 31, 1973.





## SHAREHOLDERS' EQUITY PER SHARE In Dollars



#### SHAREHOLDERS' EQUITY

Shareholders' equity rose to \$213.4 million at year-end, compared with \$194.2 million a year earlier, reflecting a compound annual growth rate of 27.97% over the past 10 years. Book value per common share, based on the average number of shares outstanding, was \$13.02 at year-end, compared with \$12.21 at the close of 1972.

Principally as a result of the conversion of \$39.5 million in convertible notes and debentures into shareholders' equity during 1972, the return on 1973's beginning shareholders' equity was 12.01%, compared with 14.85% for the previous year. There were 9,476 shareholders of record at year-end.

#### DIVIDENDS

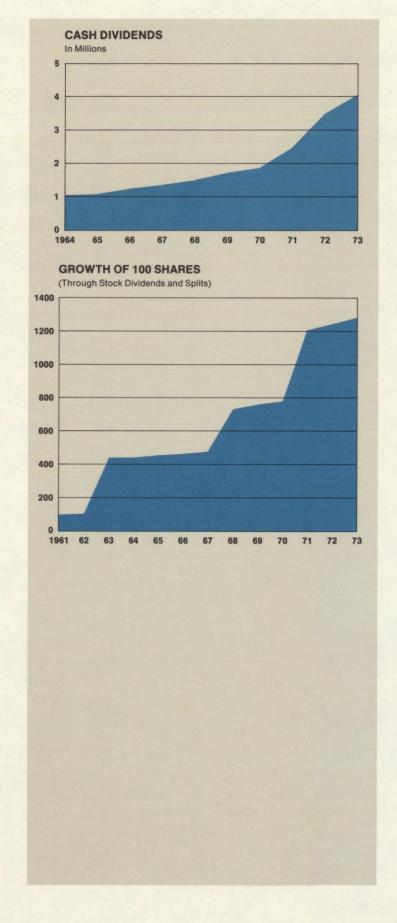
The annual cash dividend rate on the Company's common stock was increased 25% during the year to 30 cents from 24 cents per share. The new quarterly rate of 7.5 cents a share was paid initially December 20, 1973. Total cash dividends paid during the year were \$4,095,714, compared with \$3,491,311 for 1972. The Company has paid cash dividends each year since 1957 and during that time has increased the dividend rate eight times.

In addition, a 3% stock dividend of 473,247 shares was paid in November, 1973. Southland has distributed stock dividends or stock splits each year, except 1964, since 1958. Since its incorporation in Texas in 1961 as the successor to an ice business organized in 1927, the Company has declared 13 stock dividends or splits. As a result, a 100-share investment at that time would represent 1,281 shares as of December 31, 1973.

83

#### **PROFIT SHARING AND PENSION PLANS**

The Company contributes to a profit sharing plan and to various union pension plans. All eligible employees have the option of joining Southland's voluntary contributory profit sharing plan established in 1949. Contributions to this fully funded, trustee-administered plan are based on pre-tax earnings. The Company has made all required contributions to union pension plans.



## STATEMENT OF CONSOLIDATED EARNINGS

The Southland Corporation and Subsidiaries

	Year	ended December 31
	1973	1972
Revenues:		
Net sales (Note 1)	\$1,393,621,887	\$1,226,188,745
Other income	2,869,362	2,161,520
	1,396,491,249	1,228,350,265
Cost of Sales and Expenses (Note 12):		
Cost of sales and expenses exclusive of items listed below	1,261,694,858	1,110,893,392
General and administrative expenses	13,219,272	11,105,002
Property and equipment rentals (Note 9)	46,096,467	40,906,328
Depreciation (Notes 1 and 5)	21,543,276	17,862,325
Interest expense	5,233,298	4,078,847
Contributions to Employees' Savings, Profit Sharing and Pension Plan	4,558,200	4,161,000
	1,352,345,371	1,189,006,894
Earnings Before Income Taxes and Equity in Earnings of		
Affiliates	44,145,878	39,343,371
Income Taxes (Note 10)	21,746,000	19,396,500
Earnings Before Equity in Earnings of Affiliates	22,399,878	19,946,871
Equity in Earnings of Affiliates (Note 2)	928,544	419,116
Net Earnings	\$ 23,328,422	\$ 20,365,987
Primary Earnings Per Share (Note 11)	\$ 1.42	\$ 1.28
Earnings Per Share—Assuming full dilution (Note 11)	\$ 1.36	\$ 1.21

See notes to financial statements.

Year ended December 31

# CONSOLIDATED BALANCE SHEET

The Southland Corporation and Subsidiaries

#### **ASSETS**

	December 31	December 31
	1973	1972
Current Assets:		
Cash	\$ 17,515,673	\$ 33,120,375
Cash investments	23,612,625	26,193,151
Accounts and notes receivable (Note 3)	46,688,259	46,024,739
Inventories (Note 1)	68,533,899	53,747,359
Deposits and prepaid expense	10,035,552	8,099,136
Investment in property (Note 4)	29,295,180	35,598,687
Total Current Assets	195,681,188	202,783,447
Investments in Affiliates (Notes 1 and 2)	23,576,610	19,568,903
Other Assets	2,604,712	1,729,878
Property, Plant and Equipment (Notes 1 and 5)	219,262,208	165,270,306
	\$441,124,718	\$389,352,534

### LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	December 31
	1973	1972
Current Liabilities:		
Long-term debt due within one year	\$ 7,608,418	\$ 6,757,630
Accounts payable and accrued expense	84,869,167	86,313,975
Income taxes	7,231,031	1,800,241
Total Current Liabilities	99,708,616	94,871,846
Deferred Credits (Note 7)	17,856,305	15,620,385
Reserves for Self Insurance	2,619,468	2,615,183
Long-Term Debt, due after one year (Note 6)	107,495,757	82,042,893
Contingencies and Commitments (Note 9)		
Shareholders' Equity (Notes 6 and 8):		
Common stock, \$.01 par value, authorized 40,000,000 shares, issued and outstanding 16,396,039		
and 15,917,385 shares	163,960	159,174
Additional paid-in capital	162,545,280	153,464,415
Earnings retained in the business	50,735,332	40,578,638
	213,444,572	194,202,227
	\$441,124,718	\$389,352,534

# STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

The Southland Corporation and Subsidiaries

	Tear	ended December 31
	1973	1972
Common Stock:		
Balance January 1	\$ 159,174	\$ 136,857
Exercise of stock options	68	671
3% Stock dividend	4,732	4,592
Conversion of notes and debentures	-	17,054
Miscellaneous	(14)	_
Balance December 31	163,960	159,174
Additional Paid-in Capital:		
Balance January 1	153,464,415	99,149,745
Exercise of stock options	93,890	786,363
3% Stock dividend	8,986,961	14,001,161
Conversion of notes and debentures	-	39,527,146
Miscellaneous	14	_
Balance December 31	162,545,280	153,464,415
Earnings Retained in the Business:		
Balance January 1	40,578,638	37,845,781
Net earnings for the year	23,328,422	20,365,987
	63,907,060	58,211,768
Less:		
Cash dividends	4,095,714	3,491,311
Cash paid in lieu of fractional shares	84,321	136,066
3% Stock dividend	8,991,693	14,005,753
	13,171,728	17,633,130
Balance December 31	50,735,332	40,578,638
otal Shareholders' Equity (Notes 6 and 8)	\$213,444,572	\$194,202,227

# STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

The Southland Corporation and Subsidiaries

Year ended December	
1973 19	
	Source of Funds:
	From operations:
<b>\$ 23,328,422</b> \$ 20,365,98	Net earnings
	Depreciation
<b>2,235,920</b> 1,183,09	Deferred income taxes and other credits
<b>47,107,618</b> 39,411,40	Funds provided by operations
_ 30,000,00	5% Convertible subordinated debentures
	Long-term debt
	Conversion of notes and debentures
93,958 787,03	Exercise of stock options
	Decrease in investment in property
	Increase in accounts payable, accruals and income tax
	Property retirements and sales
	Decrease in cash and cash investments
	Other
<b>\$112,016,945</b> \$140,426,22	
	Application of Funds:
<b>\$ 6,983,218</b> \$ 11,347,72	Payment of long-term debt
<b>—</b> 39,544,20	Conversion of notes and debentures
<b>4,095,714</b> 3,491,3	Cash dividends
84,321 136,00	Cash paid in lieu of fractional shares
4,007,707 11,196,96	Investments in affiliates
	Property, plant and equipment
<b>–</b> 20,749,67	Increase in cash and cash investments
<b>663,520</b> 6,658,2	Increase in accounts and notes receivable
	Increase in inventories
	Increase in investment in property
	Increase in deposits and prepaid expense
	Other
<b>\$112,016,945</b> \$140,426,22	

## NOTES TO FINANCIAL STATEMENTS

The Southland Corporation and Subsidiaries

Years ended December 31, 1973 and 1972

#### 1. ACCOUNTING POLICIES:

#### PRINCIPLES OF CONSOLIDATION:

The financial statements include the assets, liabilities, sales, costs and expenses of all subsidiaries. Operations of businesses acquired in transactions accounted for as purchases have been included in consolidated earnings since acquisition, while operations of businesses acquired in transactions accounted for as poolings of interest have been included in consolidated earnings for all periods. Intercompany transactions, including those with pooled companies prior to acquisition, have been eliminated.

Investments in United Kingdom and Mexico affiliates (substantially 50% owned) are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

#### **FOREIGN OPERATIONS:**

Operations and earnings of foreign subsidiaries and affiliates are converted to U. S. dollars at the average rates of exchange during the reported periods. Property, plant and equipment accounts are converted at rates of exchange in effect when acquired. All other assets and liabilities are converted at the rates of exchange in effect at the close of the reported periods. Exchange rate adjustments are charged or credited to income. Such adjustments have not been material.

#### INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out) or market, which, as to merchandise in stores, is determined by the retail inventory method. There is no significant effect arising from inflation, as the holding period for items in inventory is relatively short.

#### PROPERTY, PLANT AND EQUIPMENT:

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining lives of the leases or the estimated useful lives of such improvements, whichever is the shorter. Maintenance and repairs are charged to income, whereas renewals and betterments are capitalized.

#### REVENUES:

Net sales comprises sales of products and merchandise (including sales through stores operated by individual Southland franchisees) and other operating revenues which consist principally of truck rentals.

Sales through stores operated by other companies under exclusive area franchise and license agreements are not included. Fees arising from such agreements are included in other income. Initial fees are deferred until the services required under the agreements have been performed.

The classifications currently in use have been applied to the statements for 1972.

#### 2. INVESTMENTS IN FOREIGN AFFILIATES:

On September 30, 1971, the Company acquired a 50% interest in the retail operations of Cavenham Limited in the United Kingdom for approximately \$8,146,000, which was subsequently increased by \$1,600,000 on the basis of operating profits through March 31, 1973. These interests were reorganized into Southland-Cavenham Limited, which operates approximately 365 small retail stores located in England and Scotland.

In April, 1972, the Company acquired a 50% interest in Cavenham-Southland Limited for approximately \$10,350,000. An additional investment of approximately \$410,000 was made in 1973 for the acquisition of additional shares of its subsidiaries. Cavenham-Southland Limited had been formed to acquire controlling interest in Wright's Biscuits Ltd. (Wright's) and Moores Stores Ltd. (Moores). The Wright's and Moores retail grocery groups include approximately 730 retail grocery outlets operating in England, Scotland and Wales.

Equity in earnings of United Kingdom affiliates is included from the effective dates of acquisition. The year for determining earnings of these affiliates ends in October. Operations of Southland-Cavenham have been included for a 12-month period in 1972 and 1973, respectively, while operations of Cavenham-Southland have been included in 1972 for approximately six and one-half months and in 1973 for a 12-month period. Equity in such earnings is stated net of interest on Eurodollar borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired (straight-line over 40 years), foreign income taxes and United States federal income taxes which will apply to dividends when paid to Southland.

#### 3. ACCOUNTS AND NOTES RECEIVABLE:

	1973	1972
Trade	\$27,999,629	\$26,965,097
Franchisee	20,366,963	20,602,024
	48,366,592	47,567,121
Less allowance for doubtful accounts	1,678,333	1,542,382
	\$46,688,259	\$46,024,739

#### 4. INVESTMENT IN PROPERTY:

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Working capital is used in the construction of new facilities and the Company expects that cash will be realized within a 12-month period for such assets.

### 5. PROPERTY, PLANT AND EQUIPMENT:

PROFERIT, FLANT AND EQUIPMENT.		
Cost:	1973	1972
Land	\$ 24,440,534	\$ 19,380,309
Buildings and leaseholds	124,433,630	91,618,551
Machinery and equipment	140,905,439	117,995,871
Vehicles	24,615,913	15,038,124
Construction in process	3,745,457	2,771,593
	318,140,973	246,804,448
Less accumulated depreciation	98,878,765	81,534,142
	\$219,262,208	\$165,270,306

Approximately 33% of the net book value of property, plant and equipment is mortgaged.

#### 6. LONG-TERM DEBT:

At December 31, 1973, long-term debt and amounts due within one year, which are included in current liabilities, were as follows:

	Amount outstanding	Current	Balance included in long-term debt
54% Promissory notes due 1976	\$ 6,875,000	\$3,437,500	\$ 3,437,500
4%-9% Real estate and equipment notes			
(mature 1974 to 2003)		4,170,918	63,508,257
5% Convertible subordinated notes due 1984			6,000,000
53/4% Convertible subordinated notes due 1987	4,550,000	-	4,550,000
5% Convertible subordinated debentures due 1987	30,000,000		30,000,000
	\$115,104,175	\$7,608,418	\$107,495,757

The 5% and 53% convertible notes and the 5% convertible debentures may, at the option of the holders, be converted at any time into common stock of the Company at ratios of 88.12, 71.87 and 24.54 shares of stock, respectively, for each \$1,000 of principal. As to the notes, these ratios decrease to 77.55 and 68.32 shares on January 1, 1975, and December 1, 1977, respectively. At December 31, 1973, there were 1,591,929 shares of common stock reserved for the conversion of the notes and debentures. Principal payments on the notes are due annually beginning in 1975 and 1978, respectively, in amounts equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first required payment.

At December 31, 1973, the aggregate amount of long-term debt maturities is as follows for the years ended December 31: 1974 - \$7,608,418; 1975 - \$7,758,554; 1976 - \$4,308,772; 1977 - \$4,358,574; 1978 - \$4,341,452.

The agreements under which the promissory notes due 1976 and the convertible notes were issued place certain restrictions on the payment of cash dividends. Under the most restrictive of these provisions, retained earnings totaling \$47,390,000 at December 31, 1973, were not so restricted.

Other provisions of the agreements include requirements as to maintenance of working capital and net worth. The Company has complied with these requirements.

#### 7. DEFERRED CREDITS:

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the terms of the leases or the useful lives of the assets, respectively.

Deferred federal income taxes result primarily from the use of accelerated depreciation methods for tax purposes.

	Investment credit	Deferred federal income taxes	Other	Total
Balance January 1, 1972	\$3,299,282	\$10,134,740	\$1,003,267	\$14,437,289
Provided for the year	1,681,000	354,000	118,600	2,153,600
Taken into income	(929, 170)	_	(41,334)	(970,504)
Balance December 31, 1972	4,051,112	10,488,740	1,080,533	15,620,385
Provided for the year	3,076,500	401,500	86,259	3,564,259
Taken into income	(1,328,339)	_	_	(1,328,339)
Balance December 31, 1973	\$5,799,273	\$10,890,240	\$1,166,792	\$17,856,305

#### 8. STOCK OPTIONS:

At December 31, 1973, under the employees' stock option plan, options for 185,826 shares of the Company's stock at prices ranging from \$5.01 to \$33.46, were outstanding, of which 97,685 shares were exercisable. During 1973, 7,002 shares were issued upon exercise of options at prices ranging from \$5.05 to \$27.74; options were granted for 47,926 shares at prices ranging from \$18.33 to \$19.17; and options for 24,717 shares expired or were cancelled. During 1972, 71,033 shares were issued upon exercise of options at prices ranging from \$4.90 to \$32.95; options were granted for 46,591 shares at a price of \$33.46 and options for 6,307 shares expired or were cancelled. An additional 10,462 shares are available for future grants.

The above information has been adjusted for stock dividends and stock splits.

#### 9. LEASE COMMITMENTS:

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 15 to 20 years, with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years.

Property and equipment rentals shown in the Statement of Consolidated Earnings have been reduced by \$2,352,000 in 1973 and \$2,118,000 in 1972 for all rentals received from subleases. Contingent rentals, based on sales volumes, exceeded minimum rentals by \$673,000 in 1973 and \$807,000 in 1972. Minimum rentals on noncapitalized financing leases (as defined by the Securities and Exchange Commission) were \$34,655,000 in 1973 and \$29,603,000 in 1972. Substantially all contingent rentals in 1973 and 1972 were applicable to the noncapitalized financing leases.

Minimum rental commitments (principally real estate leases), exclusive of taxes and insurance payable by the Company, for noncancelable leases in effect at December 31, 1973, are approximately as follows for the periods specified:

Minimum rental commitments		Minimum	Net minimum	
Years	Noncapitalized financing leases	Other leases	rentals from subleases	rental commitments
1974	\$ 37,316,000	\$ 6,612,000	\$ 1,672,000	\$ 42,256,000
1975	34,991,000	5,149,000	1,339,000	38,801,000
1976	32,680,000	3,894,000	1,061,000	35,513,000
1977	31,277,000	2,728,000	858,000	33,147,000
1978	29,522,000	1,539,000	745,000	30,316,000
1979-1983	. 118,115,000	1,441,000	2,666,000	116,890,000
1984-1988	82,965,000	_	1,681,000	81,284,000
1989-1993	37,894,000	-	469,000	37,425,000
Thereafter	3,635,000	-	4,000	3,631,000
Total	\$408,395,000	\$21,363,000	\$10,495,000	\$419,263,000

The present value of minimum rental commitments for noncapitalized financing leases was \$241,308,000 at December 31, 1973, and \$215,938,000 at December 31, 1972, of which \$196,165,000 and \$176,383,000 were real estate leases and \$45,143,000 and \$39,555,000 were equipment leases. Interest rates, implicit in the terms of each lease at the time of entering into the leases, were used in computing present value and range from 5% to 8.5%. In 1973 the weighted average of such interest rates was 7.4%. At December 31,1973 and at December 31,1972, the then present value of rentals to be received from noncancelable subleases included above was \$1,166,000 and \$1,342,000, respectively.

If all noncapitalized financing leases were capitalized, net income would have been reduced by \$2,083,000 (13¢ per share) in 1973 and by \$1,645,000 (10¢ per share) in 1972. In making this computation, amortization of the present value, at the beginning of their respective terms, of noncapitalized financing leases (\$21,271,000 in 1973 and \$18,427,000 in 1972) and implicit interest (\$17,390,000 in 1973 and \$14,388,000 in 1972) were included.

#### 10. INCOME TAXES:

Income taxes provided for are summarized below:

	1973	1972
Federal: Current	\$15,499,000	\$15,233,500
Deferred	3,478,000	2,035,000
State	2,769,000	2,128,000
	\$21,746,000	\$19,396,500

#### 11. EARNINGS PER SHARE:

Primary earnings per share are based upon the average number of shares outstanding during each year after giving effect to subsequent stock dividends.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates at the earliest possible dates (related interest requirements eliminated), and (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds.

#### 12. COST OF SALES AND EXPENSES:

Cost of sales and expenses are reported to the Securities and Exchange Commission in accordance with its regulations as follows:

1973	1972
\$1,034,390,536	\$ 918,419,371
308,163,337	262,347,676
5,233,298	4,078,847
4,558,200	4,161,000
\$1,352,345,371	\$1,189,006,894
	\$1,034,390,536 308,163,337 5,233,298 4,558,200

## TOUCHE ROSS & CO.

Board of Directors and Shareholders The Southland Corporation Dallas, Texas DALLAS FEDERAL SAVINGS BUILDING DALLAS, TEXAS 75201

We have examined the consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1973 and 1972, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1973 and 1972, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Dallas, Texas February 19, 1974 Touche Ross & Co.

Certified Public Accountants



183 THE SOUTHLAND CORPORATION 1973 ANNUAL REPORT

P.O. Box 719 - Dallas, Texas 75221